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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

ACTION

April 9, 1986

MEMORANDUM FOR JOHN M. POINDEXTER

THROUGH: STEPHEN I. DANZANSKY *SID*
FROM: LOU PUGLIARESI *L*
SUBJECT: President's Briefing with Experts (The Future of
the Soviet Economy)- April 14, 2-3 p.m., Oval
Office

Attached at Tab I is a memorandum from you to the President recommending a briefing on the future of the Soviet economy. The briefing is scheduled for April 14, 1986 from 2-3 p.m. in the Oval Office. This briefing is intended as one of two such meetings to prepare the President to take the lead on two specific issues during the three hour unstructured time accorded to the Heads of State at the economic Summit. A schedule proposal has gone forward on a second meeting for later next week addressing the issue of agriculture.

We have brought together four experts who offer a useful perspective on the problems the Soviets face in sustaining economic growth. Your memorandum provides biographical information on the participants, reviews the subject matter, and includes a briefing paper for the President on the future of the Soviet economy (Tab C).

We suggest that you begin the session with a comment on the participants' background and a summary of the major points to be covered. The briefers have been encouraged to be concise and stay within a few themes. At Tab II are talking points for you to use to introduce the group and lead the discussion.

MR Peter Rodman, Jack Matlock *JM* and Steve *SRS* Sestanovich concur.

RECOMMENDATION

That you sign the memo to the President at Tab I.

Approve _____ Disapprove _____

Attachments

Tab I Memo to the President
Tab A Agenda
B List of participants
C Briefing paper
II Talking Points for John Poindexter

THE WHITE HOUSE
 WASHINGTON
BRIEFING WITH EXPERTS ON FUTURE OF SOVIET ECONOMY
 (LIVING WITH A SICK BEAR)

DATE: April 14, 1986
 LOCATION: Oval Office
 TIME: 2-3 p.m.

FROM: JOHN M. POINDEXTER

I. PURPOSE

To prepare you for discussions with your Summit partners on the future of the Soviet economy and implications for the West.

II. BACKGROUND

There is accumulating evidence that the Soviet economy is performing badly and that the outlook for improvements are poor. An understanding that this is likely to be a permanent condition of the Soviet economy is central to our long-term dealings with the Soviet Union.

This briefing is designed to offer you some new perspectives on Soviet behavior. Of special importance is how we and our Summit partners prepare ourselves to deal with a wide range of overtures from the Soviets as they seek remedies for a failing economy. Although we believe it is premature to suggest specific policies to address this issue, it is important that your Summit partners be made aware of this permanent feature of Soviet society.

At the outset, I will briefly introduce the four experts and review the central theme of the briefing. We have structured the session so that each participant can offer useful insights in his area of expertise. An agenda is provided at Tab A and a more extensive discussion of this issue is provided in the briefing paper at Tab C.

III. PARTICIPANTS

List of participants is at Tab B.

IV. PRESS PLAN

White House photographer only.

V. SEQUENCE OF EVENTS

I will introduce the four experts and briefly review the issue areas to be addressed. If appropriate, I will make concluding remarks.

Prepared by:
 Lou Pugliaresi

Attachments

Tab A Agenda
 B List of participants
 C Briefing paper

MEETING WITH EXPERTS ON SOVIET ECONOMY

Monday, April 14, 1986
White House Oval Office
2:00-3:00 p.m.

AGENDA

- I. Introduction **John M. Poindexter**
5 minutes
- II. Perspectives and Discussion on
- Living with a Sick Bear..... 50 minutes
- Implications for the West..... Henry Rowen
- Costs of the Soviet Empire..... Charles Wolf
- The Soviet Economy and
Growing Dependence of Imports.... Vladimir Treml
- Implications for the Soviet
Military..... Andrew Marshall
- Concluding Remarks..... Henry Rowen

LIST OF PARTICIPANTS

EXPERTS

HENRY ROWEN: Senior Research Fellow at Hoover and Professor of Business Administration at Stanford. Formerly Chief of the National Intelligence Board, President of Rand Corporation, and Associate Director in the Bureau of the Budget. Professor Rowen recently published a thoughtful article entitled Living with a Sick Bear and will provide an overview of the policy concerns from a failing Soviet economy.

CHARLES WOLF: Dean of the Rand Graduate Institute. Wolf has done extensive work on the economic problems facing the Soviet Union in providing support for Eastern Europe, Cuba, Vietnam, and Afghanistan. He will make some brief points on this issue.

VLADIMIR TREML: Professor of Economics, Duke University. Professor Treml is an expert on the economy of the Soviet Union and will discuss the growth in Soviet dependence on Western imports.

ANDREW MARSHALL: Director, Net Assessment, Department of Defense. Andy Marshall is an expert on Soviet military expenditures and will discuss the capability of the Soviet military to adjust to a failing economy.

ADMINISTRATION

George P. Shultz, Secretary of State

Admiral John M. Poindexter, Assistant to the President for
National Security Affairs

W. Allen Wallis, Under Secretary of State for Economic Affairs

Donald R. Fortier, Deputy Assistant to the President for
National Security Affairs

Stephen I. Danzansky, Special Assistant to the President and
Senior Director of International Economics Affairs, National
Security Council

Lucian S. Pugliaresi, Director for International Economic
Affairs, National Security Council

BRIEFING PAPER ON FUTURE OF SOVIET ECONOMY
(LIVING WITH A SICK BEAR)

- o There is an accumulation of evidence that suggests that the economy of the Soviet Union has been performing poorly, experiencing little or no growth over the last decade. Defense expenditures are becoming a heavy burden.
- o The immediate future for the Soviet economy looks bleak. Additions to the labor force will be much smaller than in the past decade, investment is lagging, and productivity is declining.
- o Given the decline in world oil prices the Soviets will experience shortfalls in earning adequate hard currency for key imports such as grain, sophisticated industrial technologies and other major capital improvements.
- o We can expect the Soviets to tinker with their economic organization, but the leadership will not risk the political freedom and loss of control that accompanies decentralized economic reform.
- o A greater awareness among the Summit partners of the permanent inferiority of the performance of the Soviet economy is necessary to appropriately evaluate Soviet economic overtures in coming years. We can expect important overtures from the Soviets in economic and security areas as they confront intractable economic problems.
- o The Soviets face a serious predicament. It's unlikely the performance of the economy can be improved without political reform, but political reform poses risks to party control. We should not ease the Soviets out of this predicament, but rather use this opportunity to leverage western economic and technology assistance to reduce Soviet influence in the Third World, diminish human rights abuses, lessen their hold over Eastern Europe.
- o We are not suggesting that Western policy engage the Soviet Union in a state of economic warfare. Instead, we want our Summit partners to have an appreciation of the dilemma facing the Soviet leadership and that we have a unique opportunity to improve our security if we treat overtures from the Soviet Union cautiously. At a minimum, we do not want to subsidize the Soviet economy.

~~SECRET~~
FOR JOHN POINDEXTER FOR
BRIEFING ON SOVIET ECONOMY

- Mr. President, we are very pleased to have here four eminent experts on the Soviet economy. Our purpose is to give you their views on the prospects for the Soviet economy and the implications to the West.

- This is part of our preparations for your unstructured time at the economic Summit. We think it is premature to offer our Summit partners specific policies for addressing a failing Soviet economy, but that it is important that they be made aware of this long-term problem and the choices it presents us.

- What we would like to do today is outline for you the long-term predicament facing the Soviets and some perspectives on this might effect our long-term strategy.

- We will begin with Henry Rowen. Henry (Harry) Rowen is a Senior Research Fellow at Hoover with extensive government service. Harry, could we ask you to kick off the discussion and perhaps give us some concluding remarks at the end.

(Harry will argue that there is accumulating evidence that the Soviet economy is failing. He will provide an overview of Gorbachev's modernization program; what we can expect from the Soviets in the near-term and what it means for the West).

- Charles Wolf is Dean of the Graduate Institute at Rand and has done extensive work on the costs of the Soviet empire. Charlie, picking up on Harry's overview do you think this means the Soviets are vulnerable in parts at their empire, especially Eastern Europe?

(Charlie will argue that the Soviet Empire is costly, but within Soviet capabilities to maintain it. However, he will point out that the Soviets will be taking more risks with Eastern Europe providing opportunities for the West to loosen Soviet influence there).

- Vladimir Treml is Professor of Economics at Duke University and an expert on the Soviet economy. His work on Soviet import dependence is a key ingredient to our discussion. Vladimir do you think the Soviets could get their economy back on track with greater imports from the West?

(Treml will argue that there has been a growing Soviet dependence on Western grain and technology, and that the Soviets will be unable to rid themselves of this dependence).

- Andrew Marshall is Director of Net Assessment at the Pentagon. Andy what does this all mean for the Soviet military? Can the Soviets sustain the burden?

(Andy will argue that a failing Soviet economy will place severe stress on the Soviet military and that we can expect a range of proposals from the Soviets to reduce their burden).

- Harry, would you like to make any concluding remarks?

(Harry will leave the President with the following themes:
(1) Soviets are having a difficult time and most attempts at tinkering with the economy are likely to fail.
(2) Time is on our side, but its important our allies gain a shared appreciation of this feature of the Soviet Union as we form strategic goals.
(3) The failing Soviet economy will probably give the West greater leverage over the long-term.